

**SOUTH CAROLINA DEPARTMENT OF EDUCATION  
2014–15 INDIRECT COST RATE PROPOSALS:  
GENERAL INFORMATION**

**Part I**

In accordance with information received from the Secretary of Education and from the Office of Grant and Contract Financial Management, United States Department of Education, after July 1, 1973, local education agencies (LEAs) are required to have an approved indirect cost allocation proposal and rate in order to recover any indirect cost related to federal grants and contracts.

**OFFICE OF MANAGEMENT AND BUDGET CIRCULAR NO. A-87**

The Office of Management and Budget (OMB) Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, sets forth the principles for determining the allowable costs of programs administered by state and local governments under the grants and contracts with the federal government.

The objectives of the principles in the circular are

- to establish uniform standards of allowability,
- to identify the full cost of federal programs,
- to ensure that federal programs bear their fair share of costs, and
- to simplify intergovernmental relations.

Applications for grants and contracts usually involve a request for reimbursement of both direct and indirect costs. Indirect costs are those that are not readily identifiable with the activities of the grant and contract but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization.

As prescribed by OMB Circular No. A-87, indirect costs are those meeting two criteria:

- they are incurred for a common or joint purpose benefiting more than one cost objective and
- they are not readily assignable to the cost objectives specifically benefited.

The following are some examples of services that typically benefit several activities and programs for which an indirect cost proposal may be used to attribute costs:

- accounting,
- auditing,
- budgeting,
- payroll,
- personnel, and
- purchasing.

In theory, all such costs can be charged directly. However, practical limitations and the consideration of efficiency in accounting preclude such an approach. OMB Circular No. A-87 was issued to provide uniform governmentwide principles for determination and reimbursement of indirect costs through the mechanism of an indirect cost rate.

Certain limitations on recovery of indirect costs exist:

- Federal law may limit the amount of indirect costs that may be recovered. For example, the maximum indirect cost allowable by law for a particular program may be less than the amount allowable under OMB Circular No. A-87. Certain programs such as the Title II Eisenhower Professional Development Program and Title I, for example, restrict payment to only those expenditures that “supplement, not supplant” local effort.
- Recovery of indirect costs is subject to availability of funds. If a combination of direct and indirect costs exceeds the amount of funds available, the LEA will not be able to recover the total cost of the project or program.
- Indirect costs may be recovered only to the extent that direct costs were incurred. The indirect cost rate is applied to the amount expended, *not to the total grant award*, in order to determine the amount for indirect costs.

If the indirect costs are determined but not claimed for the grant or contract, such amount may be used as “local effort” if local matching funds are required. Indirect cost proposals must be submitted annually for approval of new rates. LEAs are not required to develop an indirect cost allocation plan; however, if they fail to do so, they will not be allowed to recover any indirect costs related to federal grants and contracts.

## **INDIRECT COST PROPOSALS**

The advantage of an indirect cost proposal and rate is that it is a simplified means for determining a fair share for indirect costs of federal grants and contracts that are acceptable to federal grantor agencies. The South Carolina Department of Education has, in cooperation with the United States Department of Education and representatives of school districts, developed indirect cost plans to be used by LEAs in South Carolina.

The State Superintendent of Education, or the State Superintendent’s designated representative, has been delegated the authority by the Office of Management and Budget to review indirect cost proposal data and to approve indirect cost rates for LEAs.

The South Carolina indirect cost plans for LEAs establish maximum fixed with carryforward rates for a given fiscal year. The LEA may elect to claim indirect costs at a rate less than the maximum.

The following two indirect cost allocations plans have been approved by the Office of Management and Budget for use by South Carolina school districts:

- a. the "Nonrestricted Indirect Cost Proposal" (for use with grants and contracts that do not carry the "supplement, not supplant" language and for use with the school food service program) and
- b. the "Restricted Indirect Cost Proposal" (for use with grants and contracts that are subject to the "supplement, not supplant" legislative restrictions).

Audited expenditures for the second preceding fiscal year are to be used in the completion of the indirect cost proposals for a given fiscal year. Audited expenditures for fiscal year 2012–13 were used to compute the indirect cost proposals for fiscal year 2014–15. **Please note that the rates are fixed with carryforward provisions.**

It is essential that LEAs classify expenditures uniformly and consistently. *Types of expenditures identified as indirect costs shall not be included also as direct costs.* Similar types of expenditures must be consistently recorded to the same accounting class. All expenditures detailed on the audited financial report must have been made, and records supporting them must be maintained by the LEA. Generally, records and documentation supporting the indirect cost proposal must be retained for a period of five years after the last day of the fiscal year to which the plan applies. If audit exceptions have been noted, records will be retained until exceptions have been resolved.

## TERMINOLOGY

**Indirect Cost Rate.** An *indirect cost rate* is simply a device for determining, in a reasonable manner, what proportion of general expenses each federal grant or contract should bear. It is the ratio between total indirect costs and some direct cost base, commonly either direct salaries and wages or total direct costs, exclusive of any extraordinary or distorting expenditures such as capital outlay, major subcontracts, alterations, and renovations.

The indirect cost rate formula is as follows:

$$\text{INDIRECT COST RATE} = \text{INDIRECT COSTS} \div \text{DIRECT COSTS}$$

**Excluded Costs.** Certain items of costs are classified in OMB Circular No. A-87 as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. *Excluded costs* in this category include Capital Outlay,

Function 253; Debt Service, Function 500 series; and Other Charges, Function 400 series. In addition, Food Services expenditures for food, supplies, and equipment charged to Function 256 have been excluded for the nonrestricted rate and the restricted rate under instructions from the OMB.

**Disallowed Costs.** OMB Circular No. A-87 classifies certain items of cost as *disallowed*, which means that the federal funds cannot be used for these items. These are costs directly attributable to governance. For formula computational purposes, these governance costs are combined with direct costs.

**Indirect Costs.** *Indirect costs* are costs of a general nature. They are incurred for a common or joint purpose benefiting more than one activity specifically without effort disproportionate to the results achieved.

**Direct Costs.** *Direct costs* are those that are incurred specifically for one activity and that can be identified specifically with that activity. These costs may be charged directly to grants, contracts, and other programs against which costs are finally recorded.

**Restricted Rate.** In accordance with an advisory statement from the Secretary of Education, a *restricted* indirect cost rate must be applied to grants and contracts that contain the “supplement, not supplant” legislative restrictions. The restricted rate would apply in grant programs under the Elementary and Secondary Education Act, the Individuals with Disabilities Education Act, the Carl D. Perkins Vocational and Applied Technology Education Act, and any other legislative authority requiring assurance that federal funds will be so used to supplement and in no case to supplant state or local funds.

### **Excluded Costs**

| <b>RESTRICTED RATE</b>  | <b>NONRESTRICTED RATE</b>                                     |
|---|---|
| A. Facility Acquisition and Construction (Function 253)       | A. Facility Acquisition and Construction (Function 253)       |
| B. Food Services (Function 256, food and supplies)            | B. Food Services (Function 256, food and supplies)            |
| C. Other Charges (Function 400 series, transfer expenditures) | C. Other Charges (Function 400 series, transfer expenditures) |
| D. Debt Service (Function 500 series)                         | D. Debt Service (Function 500 series)                         |
| E. Equipment (Object 540 series)                              | E. Equipment (Object 540 series)                              |

## **Indirect Costs**

| <b>RESTRICTED RATE</b>  | <b>NONRESTRICTED RATE</b>   |
|---|---|
| A. Board of Education<br>(only Account 231-318, Audit<br>Services)* | A. Board of Education<br>(only Account 231-318, Audit<br>Services)* |
| B. Fiscal Services (Function 252)                                   | B. Fiscal Services (Function 252)                                   |
| C. Internal Services (Function 257)                                 | C. Operation and Maintenance of Plant<br>(Function 254)             |
| D. Internal Auditing Services (Function<br>259)                     | D. Internal Services (Function 257)                                 |
| E. Central Support Services<br>(Function 260 series)                | E. Internal Auditing Services (Function<br>259)                     |
| F. Unused Leave (Object Code 140)                                   | F. Central Support Services<br>(Function 260 series)                |
|   | G. Depreciation or Use Allowance on<br>Buildings and Equipment      |
|   | H. Unused Leave (Object Code 140)                                   |

\* In accordance with OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, an entity may not charge audit costs to a federal award if the entity has total federal award expenditures of less than \$500,000 per year.

## Direct Costs

| RESTRICTED RATE   | NONRESTRICTED RATE  |
|---|---|
| A. Instruction (Function 100 series)                                      | A. Instruction (Function 100 series)                                      |
| B. Pupil Services (Function 210 series)                                   | B. Pupil Services (Function 210 series)                                   |
| C. Instructional Staff Services<br>(Function 220 series)                  | C. Instructional Staff Services<br>(Function 220 series)                  |
| D. Board of Education (Function 231<br>except Object 318, Audit Services) | D. Board of Education (Function 231<br>except Object 318, Audit Services) |
| E. Office of Superintendent (Function<br>232)                             | E. Office of Superintendent (Function<br>232)                             |
| F. School Administration (Function 233)                                   | F. School Administration (Function 233)                                   |
| G. Operation and Maintenance of Plant<br>(Function 254)                   | G. Pupil Transportation (Function 255)                                    |
| H. Pupil Transportation (Function 255)                                    | H. Food Services (Function 256 except<br>food, supplies, and equipment)   |
| I. Food Services (Function 256 except<br>food, supplies, and equipment)   | I. Supporting Services Pupil Activity<br>(Function 271)                   |
| J. Supporting Services Pupil Activity<br>(Function 271)                   | J. Community Services (Function 300<br>series)                            |
| K. Community Services (Function 300<br>series)                            | K. Summer School (Function 170<br>series)                                 |
| L. Summer School (Function 170 series)                                    |   |

Unused leave costs are included in the pool as an indirect cost. Please note the instructional memo on the SCDE website at <http://ed.sc.gov/agency/as/> that states **"effective immediately, payments for terminal leave shall not be charged directly to any federal program."**

## SUBMITTING THE INDIRECT COST PROPOSAL

Two copies of your restricted and nonrestricted indirect cost proposals are attached. Please review the proposals carefully. If you agree, please sign and return *all* copies to Debra L. Wolfe, South Carolina Department of Education, Office of Auditing Services, 1429 Senate Street, Rutledge Building Room 403, Columbia, South Carolina 29201. A copy of the approved proposals will be sent to the office of your district superintendent by the South Carolina Department of Education.

## APPLYING THE INDIRECT COST RATE

The indirect cost rate is necessary in order to compute the indirect cost dollar amounts. The LEA is required to use the approved rate in all applications for federal grants during the fiscal year for which the rate has been established. (As noted above, separate rates are established for nonrestricted programs, restricted programs, and the food service program.) The indirect cost dollar amount (**I**) is the product of the indirect cost rate (**R**) multiplied by the direct cost dollar amount (**G**).

Therefore **(I) = (R x G)**

### A. Determining Total Current Expenses

Total current expenses (**TCE**) equals the sum of the indirect cost dollar amount (**I**) plus the direct cost dollar amount (**G**).

Therefore **(TCE) = (I) + (G)**

### B. Determining the Fixed Grant Amount

Total federal award equals the sum of the total current expenses (**TCE**) plus expenses for the following account classifications:

- Facility Acquisition and Construction, Function 253;
- Debt Service, Function 500 series; and
- Other Charges, Function 400 series.

### C. Determining Indirect Cost Dollar Amounts for Restricted Programs

As shown above, the formula for the indirect cost dollar amount is **I** (indirect cost dollar amount) = **R** (indirect cost rate) **x G** (direct cost dollar amount).

In entitlement programs such as the Title I, Basic State Grant Programs, the indirect cost rate would be established on the basis of the 2004–05 financial data for all appropriate expenses. This value **R**, after approval by the South Carolina Department of Education, would be used in the formula.

To determine **I** (the *indirect cost* dollar amount) and **G** (the *direct cost* dollar amount), you must first identify the total entitlement or fixed grant amount already established by the award.

From this dollar amount, subtract costs computed for Facility Acquisition and Construction (**C**), Debt Service (**D**), and Other Charges (**T**). The remainder is the sum of the indirect cost dollar amount (**I**) and the direct cost amount (**G**).

For simplicity of the formula, assume an indirect cost rate (**R**) of 2.5 percent (.025) and give the direct cost dollar amount (**G**) its value of 100 percent (1.000) as representing the total direct costs.

### Example

|   |                 |
|---|-----------------|
| Fixed grant amount .....  | \$927,000       |
| Less  |                 |
| Facility Acquisition and Construction ( <b>C</b> ) .....              | -\$23,000       |
| Debt Service ( <b>D</b> ) .....                                       | -\$3,000        |
| Other Charges ( <b>T</b> ) .....                                      | <u>-\$1,000</u> |
| Sum of indirect cost and direct cost ( <b>I + G</b> ) .....           | \$900,000       |
| Indirect cost rate ( <b>R + 100% direct costs</b> , .025 + 1.00)..... | 1.025           |
| Direct cost dollar amount (\$900,000 ÷ 1.025)                         |                 |
| <b>G = (I + G) ÷ (R + 100% direct costs)</b> .....                    | \$878,049       |
| Indirect cost dollar amount (.025 x \$878,049)                        |                 |
| <b>I = RG</b> .....   | \$21,951        |

### D. Determining Indirect Cost Dollar Amounts for Restricted Competitive Grant Programs

In a restricted ("supplement, not supplant") competitive grant program or contract, the indirect cost amount (**I**) is computed as it is in other programs. For example, in the equation **I = R** (indirect cost rate) **x G** (direct cost dollar amount), **G** is a known quantity, and after the indirect cost rate (**R**) is computed, the indirect cost dollar amount is derived directly from the **I = RG** formula. The total federal grant or contract amount for a restricted competitive program equals the sum of the direct costs, indirect costs, Facility Acquisition and Construction, Debt Service, and Other Charges.

### E. Determining Indirect Cost Dollar Amounts for the Food Service Program

In the food service program the indirect cost dollar amount is computed in the same manner as other programs. The only difference is that the indirect cost dollar amount is used as a cost to support the claim for reimbursement and not as a direct reimbursement in itself. The indirect cost dollar amount (**I**) is determined by multiplying the indirect cost rate (**R**) by the total expenses claimed in items 3-A, 3-B, 3-C, and 3-L on the SNACS report.

Indirect cost amounts from each project may be reflected in the indirect cost pool or transferred to the General Fund. Distribution of the funds is best done



according to school system rules and regulations established for the purpose of the management of indirect cost funds.

In most instances these two accounting options will have minimal impact on grants and contracts operated by the system. Generally, most of the programs now include these indirect cost items and will require simple accounting procedures to redesignate their identification as indirect cost items.

The impact of the indirect cost plan on the system's General Fund can best be characterized as the elimination of fragmentation of personnel by funding source. Currently each project specifically identifies clerical office personnel, and it is a rare instance that an entire position is funded by a single project. This fragmentation results in situations where positions may be funded by as many as five individual projects. The indirect cost plan replaces this fragmentation and the identification of an individual or position as being specifically funded by a particular project or projects. The plan allows for the redesignation of positions as "central service" positions, thus allowing the system to utilize personnel to meet the current functions of an office and not restricting a person to work or to be identified with a single project. It may be necessary to mobilize many people to accomplish a given function, and if fragmentation of personnel were in effect, this consolidated effort could be considered supplanting either systems' personnel or special project personnel. However, under the indirect cost plan, if it becomes necessary to mobilize efforts of many persons to accomplish a function or task, the specific identification of people to a specific project is not of concern.

The General Fund of the system should benefit from the claim for reimbursement procedures that accompany the utilization of an indirect cost plan. This plan enables the system to claim or calculate its legal maximum reimbursement for each individual project. Currently it is extremely difficult to relate insignificant indirect cost amounts to a particular project in order to substantiate a complete or full claim.

## **F. Carryforward Computation**

LEAs will use a fixed rate with a carryforward provision. A fixed rate with carryforward provision has characteristics of both a provisional rate, which is a temporary rate subject to adjustment, and a predetermined rate, which is a permanent rate not subject to adjustment. A rate is computed and fixed for a specified future period based on an estimate of that future period's level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried forward to the second fiscal

period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate expected to be incurred. An accurate forecast will confine carryforward amounts to minimal differences. The following is a sample of a fixed with carryforward rate computation:

**South Carolina Department of Education  
Office of Finance - District Auditing and Field Services Section  
Sample Carryforward Computation**

|  |             | <b><u>INITIAL YEAR</u></b> | <b><u>SUBSEQUENT YEARS</u></b> |                          |
|--|-------------|----------------------------|--------------------------------|--------------------------|
|  |             | <b>FY 2011</b>             | <b>FY 2013</b>                 | <b>FY 2015</b>           |
| <b>(a) FIXED RATE AS NEGOTIATED</b>  |             |                            |                                |                          |
| (B/A) - Computed as follows:   |             | <u>5.3%</u> (C)            | <u>4.0%</u> (C)                | <u>5.6 %</u> (C)         |
| Direct/Disallowed Costs  |             | <u>\$106,995,436</u> (A)   | <u>\$110,550,600</u> (A)       | <u>\$114,100,980</u> (A) |
| Indirect cost pool:  |             |                            |                                |                          |
| Indirect Costs   | \$5,692,672 |                            | \$5,150,000                    | \$5,820,200              |
| Fixed-Carry Forward (FCF)  | <u>\$ 0</u> |                            | <u>(\$709,182)</u>             | <u>\$546,979</u>         |
| Total Pool   |             | \$5,692,672 (B)            | \$4,440,818 (B)                | \$6,367,179 (B)          |
| <b>(b) ACTUAL COSTS NEGOTIATED:</b>  |             |                            |                                |                          |
| Actual Direct/Disallowed Costs   |             | \$110,550,600 (D)          | \$114,100,980 (D)              |                          |
| Actual Indirect Costs  | \$5,150,000 |                            | \$5,820,200                    |                          |
| FCF  | <u>\$ 0</u> |                            | <u>(\$709,182)</u>             |                          |
| Total Pool   |             | <u>\$5,150,000</u> (F)     | <u>\$5,111,018</u> (F)         |                          |
| <b>(c) CARRYFORWARD COMPUTATION:</b>                                       |             |                            |                                |                          |
| Indirect Eligible for Recovery (C*D):                                      |             |                            |                                |                          |
| Fixed rate x Actual Direct/Disallowed Base:                                |             |                            |                                |                          |
| 2008   |             | \$5,859,182 (E)            |                                |                          |
| 2010   |             |                            | \$4,564,039 (E)                |                          |
| Should have recovered:   |             |                            |                                |                          |
| Actual Indirect Costs for:   |             |                            |                                |                          |
| FY 2008  |             | <u>\$5,150,000</u> (F)     |                                |                          |
| FY 2010  |             |                            | <u>\$5,111,108</u> (F)         |                          |
| <b>UNDER OR (OVER) RECOVERY (F-E),<br/>CARRYFORWARD TO SUBSEQUENT YEAR</b> |             | <u>(\$709,182)</u>         | <u>\$546,979</u>               |                          |

\* This is a sample only and is not intended to prescribe methods of charging costs.

## **SPECIAL INSTRUCTIONS**

### **Part II**

This plan has been designed to conform to the statewide financial accounting system utilized by all South Carolina school districts. You should review the following specific information prior to checking the indirect cost proposals:

- A. Verify expenditures to your FY 2012–13 audited data. Please note that if your district has a component unit, your component unit totals are included in the district's totals.
- B. Depreciation and allowance for the use of buildings, capital improvements, and equipment is employed in computing the nonrestricted rate. This computation is based on the actual cost. However, where actual cost records have not been maintained, a reasonable estimate of original acquisition cost may be used. The computation will exclude any portion of cost donated or borne directly or indirectly by the federal government.
  - The cost of land also is excluded. When the depreciation method is used, adequate property records must be maintained. Any generally accepted method must be consistently applied for any specific asset or class of assets.
  - In lieu of depreciation, you may use an allowance for buildings and improvements computed at an annual rate of 2 percent and for equipment at an annual rate of 6⅓ percent.
  - Depreciation or use allowance on idle or excess facilities is not allowable.
  - The information for depreciation and use allowance is submitted on the Supportive Information Sheet that is due annually by *December 1* with the submission of your annual audit report.
- C. Check your indirect cost proposals carefully. Sign *all* copies of the certification statement and return *all* copies to

Debra L. Wolfe, Administrative Assistant  
South Carolina Department of Education  
Office of Auditing Services  
1429 Senate Street, Room 403 Rutledge Building  
Columbia, South Carolina 29201

A certified and approved copy of each proposal will be returned to you. If there are any errors, please make corrections on the proposals prior to submission.